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Dangerous to draw down reserves

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Opposition speakers have suggested drawing down \$60 billion of our reserves to create jobs via regeneration funds ("\$60b is small change, Tan Jee Say insists"; last Saturday).

As at the end of last year, our official reserves stood at \$288 billion compared to a gross domestic product of \$304 billion and bank deposits (domestic bank units or DBU) of \$781 billion. In the event of a financial meltdown, the reserves would be far too small to bail out our banks. During the recent global financial crisis I was very anxious for Singapore when the Monetary Authority of Singapore announced a guarantee (until end last year) for all our DBU deposits of up to \$150 billion.

Recall what happened to Ireland last year. The Irish Government guaranteed 485 billion euro of bank liabilities, three times the size of its GDP. Its foreign reserves amounted to only 1.2 billion euro. It had to go hat in hand to the European Union and International Monetary Fund for huge bailouts of 67.7 billion euro and 22.5 billion euro respectively. The GDP plunged to -7.8 per cent and unemployment shot up to 13.7 per cent. Public debt ballooned from 25 per cent to 94 per cent of GDP. Ireland used to be a magnet for immigrants. Last year 100,000 Irish moved abroad.

We need to build up our national foreign exchange reserves because we have nothing else to fall back on. We need a first-rate government to ensure that our financial system is sound and the economy strong so that jobs are plentiful. We can calibrate our immigration policy, transfers to the poor and elderly, ensure good affordable housing and improve our education and training schemes. However, there is no such thing as a free lunch. We have to work hard and be united to face an increasingly turbulent global economy.

Augustine Tan (Professor)